



# BOSTON RETIREMENT BOARD

One City Hall Square, Room 816  
Boston, Massachusetts 02201  
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## Board Members

Daniel J. Greene, Chair  
Sally D. Glora  
Michael W. McLaughlin  
Thomas V. J. Jackson  
Michael D. O'Reilly

## Executive Officer

Timothy J. Smyth, Esquire

April 11, 2016

Maureen E. Feeney, Boston City Clerk  
Boston City Council  
Boston City Hall, Room 601  
Boston, MA 02201

RE: FY17 Retiree Cost-of-Living Adjustment Base Vote

Dear Clerk Feeney:

The Trustees of the Boston Retirement Board hereby notifies the Boston City Council that it shall receive public comment relative to retiree Cost of Living Adjustment ("COLA") base at a public meeting scheduled for May 18, 2016, at 10:00 a.m. The vote on the COLA base shall take place on June 15, 2016, at 10:00 a.m.

Both meetings shall be held in Room 716 of City Hall. We include a memorandum prepared by our actuary relative to the additional costs associated with increasing the COLA base for review. Thank you.

Respectfully submitted,  
BOSTON RETIREMENT BOARD

BY:

  
Timothy J. Smyth, Esquire  
Executive Officer

cc: Honorable Martin J. Walsh, Mayor of City of Boston  
Michelle Wu, City Council President  
David Sweeney, City of Boston Chief Financial Officer  
William McGonagle, Boston Housing Authority  
Huy Nguyen, MD, Boston Public Health Commission  
Brian Golden, Boston Redevelopment Authority  
Henry Vitale, Boston Water & Sewer Commission

Enclosure.

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Kathleen A. Riley, FSA, MAAA, EA  
Senior Vice President and Actuary  
kriley@segalco.com

April 8, 2016

State-Boston Retirement Board  
City Hall Room 816  
Boston, MA 02201

Subject: Updated Additional Costs of Increasing the COLA Base

Dear Board Members:

As requested, we have updated our estimates of the cost of increasing the Cost of Living Adjustment (COLA) base from \$13,000 to \$14,000, \$15,000 and \$16,000 for both the SBRS Excluding Teachers and the Teachers. We have assumed the base would be increased effective July 1, 2016 and that the additional cost would first be reflected in the fiscal 2017 appropriation. In addition, our estimates also reflect the revised mortality assumptions used in the December 31, 2014 Governmental Accounting Standards Board (GASB) disclosures.

The funding schedule included in the January 1, 2014 actuarial valuation report fully funds the actuarial accrued liability of the SBRS Excluding Teachers by fiscal 2025 with total payments increasing 7.75% per year. The fiscal 2016 appropriation is \$218,812,904 and the fiscal 2017 appropriation is \$235,770,904. The additional cost associated with the change in the mortality assumption is reflected in the fiscal 2025 appropriation.

We have incorporated the additional cost of increasing the COLA base into the funding schedule by adding an amount to the fiscal 2017 appropriation, which will increase by 7.75% per year thereafter. We have determined that increasing the COLA base to \$14,000 would result in a fiscal 2017 appropriation that is 9.31% greater than fiscal 2016, or \$239,173,904, increasing the COLA base to \$15,000 would result in a fiscal 2017 appropriation that is 10.83% greater than fiscal 2016, or \$242,517,904, and that increasing the COLA base to \$16,000 would result in a fiscal 2017 appropriation that is 12.33% greater than fiscal 2016, or \$245,801,904.

The increases in the unfunded liability, employer normal cost and fiscal 2017 appropriation for the Non-Teachers are shown in the table on the following page. Consistent with the current funding schedule, the additional cost of increasing the COLA base would increase 7.75% per year through 2025.

	<b>\$13,000 (current)</b>	<b>Additional cost due to COLA base increases of as of July 1, 2016</b>		
		<b>\$14,000</b>	<b>\$15,000</b>	<b>\$16,000</b>
July 1, 2016 Unfunded Liability	\$1,680,330,140	\$26,091,612	\$51,748,403	\$76,969,187
Percent Increase		1.6%	3.1%	4.6%
July 1, 2016 Employer Normal Cost	55,914,798	567,202	1,121,926	1,664,539
Percent Increase		1.0%	2.0%	3.0%
Fiscal 2017 Appropriation	235,770,904	3,403,000	6,747,000	10,031,000
Percent Increase		1.4%	2.9%	4.3%

The attached exhibit shows the projected appropriations for fiscal 2017 through fiscal 2025 for the SBRS Excluding Teachers, as well as the additional projected appropriations with the three alternative COLA bases.

The fiscal 2016 appropriation for the Teachers of the SBRS has been budgeted at \$120,434,000 by the Commonwealth. The fiscal 2017 appropriation will increase by 10% and the pension obligations of the Commonwealth are expected to be fully funded by June 30, 2036. Please note that the January 1, 2014 actuarial valuation for the Teachers of the SBRS used the same assumptions as the Teachers' Retirement System Actuarial Valuation Report as of January 1, 2014 dated September 12, 2014. The Governmental Accounting Standards Board (GASB) Statements No. 67 and 68 Accounting Valuation Report as of December 31, 2014 dated January 5, 2016 reflected a change in the mortality assumption to the assumption used in the Teachers' Retirement System Actuarial Valuation Report as of January 1, 2015 dated September 18, 2015. The figures below reflect the new mortality assumption, but do not reflect the revised investment return assumption used in the Teachers' Retirement System Actuarial Valuation Report as of January 1, 2015.

We have determined the additional unfunded liability and employer normal cost if the COLA base is increased for the Teachers effective July 1, 2016 from \$13,000 to \$14,000, \$15,000 and \$16,000 as shown below:

	<b>\$13,000 (current)</b>	<b>Additional cost due to COLA base increases of as of July 1, 2016</b>		
		<b>\$14,000</b>	<b>\$15,000</b>	<b>\$16,000</b>
July 1, 2016 Unfunded Liability	\$2,248,339,643	\$15,947,952	\$31,843,005	\$47,678,598
Percent Increase		0.7%	1.4%	2.1%
July 1, 2016 Employer Normal Cost	\$2,529,046	\$203,713	\$405,937	\$606,552
Percent Increase		8.1%	16.1%	24.0%

Please refer to our January 1, 2014 Actuarial Valuation and Review dated February 11, 2015 for the data, assumptions and plan of benefits underlying these calculations with the exception of the updates to the mortality assumptions as described in our Governmental Accounting Standards Board (GASB) Statements No. 67 and 68 Accounting Valuation Report as of December 31, 2014 dated January 5, 2016.

This report was prepared in accordance with generally accepted actuarial principles and practices at the request of the Board to assist in administering the Retirement System.

The measurements shown in this actuarial valuation may not be applicable for other purposes. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period); and changes in plan provisions or applicable law.

The actuarial calculations were directed under my supervision. I am a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein. To the best of my knowledge, the information supplied in this actuarial valuation is complete and accurate. In my opinion, each assumption is reasonable (taking into account the experience of the plan and reasonable expectations) and such other assumptions, in combination, offer my best estimate of anticipated experience under the plan.

Please let us know if you have any questions or need any additional information.

Sincerely,



Kathleen A. Riley, FSA, MAAA, EA

Enclosure

cc: Timothy J. Smyth, Esq. (w/enclosure)  
Jonathan Lucas (w/enclosure)

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Increase in Appropriation if COLA Base is Increased as of July 1, 2016					
Fiscal Year Ended June 30	Appropriation from current funding schedule	Increase in Appropriation			
		\$14,000 COLA Base	\$15,000 COLA Base	\$16,000 COLA Base	
2017	\$235,770,904	\$3,403,000	\$6,747,000	\$10,031,000	
2018	254,043,149	3,666,733	7,269,893	10,808,403	
2019	273,731,493	3,950,905	7,833,310	11,646,054	
2020	294,945,684	4,257,100	8,440,391	12,548,623	
2021	317,803,975	4,587,025	9,094,521	13,521,141	
2022	342,433,783	4,942,520	9,799,346	14,569,029	
2023	368,972,401	5,325,565	10,558,795	15,698,129	
2024	397,567,762	5,738,296	11,377,102	16,914,734	
2025	435,264,687	6,287,305	12,458,533	18,531,447	

Notes: Anticipates deferred investment gains.

Recommended contribution is assumed to be paid on July 1.

Appropriations from the current funding schedule include an adjustment to the fiscal 2025 appropriation to reflect revised mortality assumptions.